BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of	)	
	)	
PUBLIC UTILITIES COMMISSION	)	Docket No. 2008-0274
	)	
Instituting a Proceeding to Investigate	)	
Implementing a Decoupling Mechanism	)	
for Hawaiian Electric Company, Inc., and	)	
Hawaii Electric Light Company, Inc., and	)	
Maui Electric Company, Limited.	)	
	)	

HAIKU DESIGN AND ANALYSIS REPLY BRIEF

AND

CERTIFICATE OF SERVICE

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of PUBLIC UTILITIES COMMISSION Instituting a Proceeding to Investigate Implementing a Decoupling Mechanism for Hawaiian Electric Company, Inc., and Hawaii Electric Light Company, Inc., and Maui Electric Company, Limited.	)	Docket No. 2008-0274

<u>HAIKU DESIGN AND ANALYSIS</u>

<u>REPLY BRIEF</u>

Carl Freedman, dba Haiku Design and Analysis (HDA) respectfully offers this Reply Brief for consideration by the Commission regarding the implementation of a decoupling mechanism for the Hawaiian Electric Company, Inc. (HECO), the Hawaii Electric Light Company, Inc. (HELCO) and the Maui Electric Company, Limited (MECO), collectively referred to as "HECO Companies".

After reviewing the Opening Briefs filed by the parties in this docket, HDA has no arguments to assert in reply. HDA is not trying to argue strongly for any particular outcome in this proceeding. Rather, HDA's objective is to assist the Commission by creating options and providing analysis and recommendations.

This reply brief focuses on two sets of clarifications. First, in response to informal inquiries about details regarding HDA's recommendations in its Opening Brief (and possible alternatives), HDA provides clarifications regarding its proposal to initially approve a one year "pilot" implementation of HECO's proposed RAM for HECO. Second, HDA provides clarifications and citations regarding HDA's quantification of HECO's marginal production costs and marginal revenues for Schedule P (large customer class).

Clarification Regarding HDA's Recommendation for a One Year Pilot Implementation of HECO's Proposed Revenue Adjustment Mechanism (RAM)

In its Opening Brief HDA recommended that the Commission "approve the RAM proposed by the HECO Companies for HECO for one year (accrual period of calendar year 2010) with several specific conditions..." (HDA Opening Brief at page 37). Since the time HDA filed its Opening Brief, HDA has been asked (informally) for clarifications regarding HDA's position and recommendations regarding an initial pilot implementation of a RAM for HECO. HDA provides clarification of its position and recommendations as follows:

- **Accrual Period Timing for HECO Pilot:** HDA recommended that, by issuing an interim order in this docket, the Commission approve a one year "pilot" implementation of the RAM mechanism proposed by HECO in this proceeding to apply only to HECO, contingent upon several conditions. The one year pilot would apply to an "accrual period of calendar year 2010" (HDA OB at p.37). The pilot period as proposed by HDA would apply to RAM revenues that would accrue during calendar year 2010.[1]

[1] In accordance with the proposed RAM protocols (as specified in either the HECO and Consumer Advocate Joint Statement of Position (JSOP) or HECO's modified quarterly implementation proposed in

An alternate implementation period for a pilot RAM could be to continue the RAM accrual period until an interim order is issued in HECO's expected 2011 rate case. HDA clarifies here that HDA is not opposed to the pilot RAM accrual period ultimately being extended to include the period up until the interim order in HECO's 2011 test year rate case. If the Commission would be inclined to continue the RAM or has not reached a decision regarding whether to continue the RAM by the end of calendar year 2010, it might be appropriate to extend the period of accrual for the pilot implementation beyond a one year period. HDA' s recommendation remains, however, to approve the RAM initially by interim order in this docket for an accrual period of only calendar year 2010. HDA's reasoning is clarified as follows:

- HDA did not intend, by referring to the initial implementation of the RAM as a "pilot", that the Commission would or should wait until the end of the pilot accrual period or until 2010 calendar year financial results become available in Spring of 2011 to make further decisions regarding extended or permanent implementation of the RAM for HECO. Prior to the end of calendar year 2010 there would be substantial experience with implementation of the RAM. The Consumer Advocate and the Commission would have direct experience with the first RAM filings in the Spring of 2010 to determine what issues might arise and how much work and uncertainty is involved in reviewing the

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HECO's Opening Brief), RAM revenues accruing in calendar year 2010 would result in "lagged" collections from HECO's customers via the RAM surcharge which would continue through the second quarter of 2011.

RAM filings. Many details are likely to become apparent in the process of the first RAM filings.

  - The Commission could extend the accrual period of any pilot implementation of a RAM at any time. If the period were extended by the Commission prior to the end of 2010 this could result in un-interrupted implementation the RAM HECO. On the other hand, it is less clear whether or under what conditions the Commission could truncate or terminate the accrual period once it has been approved.
  - Prior to the end of 2010 it would be known for certain whether HECO would, in fact, file for a 2011 test year rate case and what the timing would be for any extension of the pilot RAM accrual period until an interim order in the rate case.

- **Timing of Decisions Regarding MECO and HELCO:** HDA recommended that approval of any pilot or permanent implementation of a RAM for MECO or HELCO should be deferred pending experience with the initial pilot implementation of a RAM for HECO. As noted above, the Commission could, at any time, make further decisions regarding implementation of a RAM for MECO or HELCO. If the Commission reaches a decision regarding a RAM for MECO and/or HELCO by the end of calendar year 2010, this would not result in any delay in what is currently proposed by HECO and the Consumer Advocate.

Clarification Regarding Marginal Production Costs and Revenues for Schedule P

In HDA's characterization of a revenue per customer (RPC) decoupling mechanism, HDA stated that HECO's class of largest customers (Schedule P) was already essentially decoupled from sales volumes in HECO's existing rate design since Schedule P energy (kWh) charges are approximately equal to HECO's marginal production costs. Fixed costs for Schedule P are embedded in customer and demand charges. During the panel hearings in this docket HDA was asked to clarify the basis for HDA's determination that Schedule P marginal revenues were equal to marginal production costs.

At the panel hearings HDA explained that its estimate of HECO's marginal production costs was determined by HDA's analysis reported in Exhibit A of HDA's Final Statement of Position (FSOP).[2] The analysis reported in Exhibit A compares the results of HECO's production cost analyses for its original and update rate case filings. The only significant difference between HECO's original and update case filing is a difference in test year sales projections of 173.1 GWH.[3] HECO's production cost analyses presented in the rate case determined that the difference in production costs resulting from this amount of reduction in sales was $34,800,700.[4] The marginal production cost derived from HECO's

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[2] HDA does not have access to transcripts for this proceeding. References to statements at the panel hearings are based on HDA's notes from the panel hearings.

[3] See HDA FSOP Exhibit A, page 2, line F, column "Increment" and citation to HECO T-4 (Update), page 2 of 121 filed in HECO's pending rate case Docket No. 2008-0083.

[4] See HDA FSOP Exhibit A, page 2, line C, column "Increment" and citations in lines A and B to sources in HECO's pending rate case Docket No. 2008-0083: HECO T-4 (Update), page 2 of 121 and HECO-WP-1036 (Update), page 6.

rate case filings is the quotient of these two amounts (difference in production cost divided by difference in underlying sales) which equals $0.201 per kWh ($201.04 per MWH).[5]

At the panel hearings HDA cited HECO's marginal revenues for Schedule P customers as the $0.199520 per kWh energy charge at proposed rates reported in HECO-2214, page 5 of 6 in HECO's pending rate case Docket No. 2008-0083. This amount of revenue is very close to HECO's calculated production costs of $0.201 per kWh.

HDA notes here, however, that:

- The energy charge HDA cited at the panel hearings was based on HECO's original rate case filing, not its updated filing. HECO's Schedule P energy charge at proposed rates in the updated filing, based on HECO's updated HECO-2214, is $0.179252 per kWh. HECO's updated case also includes a HECO's proposed Schedule P rates in its updated rate case filing therefore appear to be lower than its marginal production costs.
- HECO proposes a new large-customer class in its rate case filings: Schedule DS (Large Power Directly Served Service). In HDA's proposed RPC decoupling mechanism, Schedule DS should be treated in same manner as recommended for Schedule P. HECO's Schedule DS energy charge at proposed rates in its updated filing, based on HECO's updated HECO-2214 at page 4, is $0.172009 per kWh.

[5] See HDA FSOP Exhibit A, page 2, line H, column "Increment".

HDA makes the following observations regarding whether HECO's large customer classes are decoupled with respect to sales volumes by way of marginal energy revenues being approximately equal to marginal energy production costs:

- In either case, according to the energy charges proposed in HECO's original filing or its updated filing, it does not appear that there are any significant fixed costs embedded in HECO's Schedule P energy charges since these charges do not even fully recover marginal production costs.
- Schedule P could be decoupled (with respect to sales volume) by making energy charges equal to marginal energy costs. This appears to be very close to existing rate design for this customer class. Given Hawaii's objectives to encourage efficient use of energy, it is not particularly good rate design to set energy charges below marginal energy production costs.

HDA respectfully submits is Reply Brief to the Commission for consideration.

Dated: September 28, 2009; Haiku, Hawaii

Signed: CARL FREEDMAN

Carl Freedman

CERTIFICATE OF SERVICE

I hereby certify that I have, on September 28, 2009 served a copy of the foregoing HAIKU DESIGN AND ANALYSIS REPLY BRIEF upon the following entities, by first class mail or by electronic transmission as noted:

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